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SUBJECT: TANZANIA OIL AND GAS EXPLORATION: OIL UNLIKELY, GAS NEEDS
INVESTMENT AND GOVERNMENT ACTION

REF: A: Dar Es Salaam 221, B: 2008 Dar es Salaam 444

11. (U) Summary. Natural gas in Tanzania could be exported or at least support significant domestic generation in the short to medium-term, but not without GOT action and investment in energy infrastructure. Significant oil discoveries are unlikely but possible given offshore geological formations. An unresolved political debate over revenue-sharing between Zanzibar and mainland Tanzania continues to hinder offshore exploration. Given the current energy investment climate and GOT unwillingness to facilitate further investments, exploration will continue to be an intermittent process. End Summary.

12. (U) The search for oil and gas in Tanzania has progressed inconsistently over the past 50 years. According to the website of the Tanzania Petroleum Development Corporation (TPDC), almost all multinational petroleum companies have been represented "at one time or another." Much of the work has been geological, geochemical, gravity, airborne magnetometer, and seismic surveys conducted by companies granted exploration concessions or by the GOT through assistance from donor governments. So far, investors have only drilled twenty-five wildcat exploration wells and eight development wells at Songo Songo and Mnazi Bay. While major players such as Shell and Petrobras have concessions, much of the industry is currently comprised of minor independents struggling to generate the capital to keep their exploration plans moving ahead.

Gas exports are viable, but constrained by GOT inaction

13. (U) When talking with industry experts, the real focus of exploration in Tanzania is natural gas. With two discoveries at Songo Songo and Mnazi Bay already online, it seems likely, especially near the major river basins, that more discoveries are only a matter of time. Halfani Halfani, the Director of Exploration, Production, and Technical Services at TPDC, detailed ongoing exploration activities indicating that gas was the likely output of all current exploration. He was confident that Tanzania would soon produce enough gas to export in addition to supplying the domestic market. Potential markets for Tanzanian gas include Kenya, Japan and South Korea. According to Halfani, Maurel and Prom, a French exploration company, has already entered into discussions regarding the export of Tanzanian gas from a promising deposit near Mafia Island into the Korean market.

14. (U) In 2008, Tanzania produced around 20.4 billion cubic feet of natural gas. The first significant discovery in Tanzania was Songo Songo, south of Dar es Salaam, in 1974. Managed by a consortium of investors known as Songas, Songo Songo produced 20 billion cubic

feet (bcf) in 2008, up from 4 bcf in 2004. The Songo Songo gas is piped to Dar es Salaam, where over half is used for domestic power production (up to 115 megawatts), a third is sold to local industry and private consumers, and close to 10 percent goes to the local cement factory that helped fund the pipeline from Songo Songo to Dar es Salaam. Tanseco, the public power company, has asked Songas to double the gas output from Songo Songo in order to increase power generation; however, without doubling the processing units at Songo Songo and increasing the size of the pipeline this request is not feasible. (See ref A on Tanzania's power generation problems.)

15. (SBU) Mnazi Bay, situated on the southern-most point of the Tanzanian coast, is currently an underutilized discovery. In 2008, it produced close to 300 million cubic feet, all of which was used for domestic power generation for the southern coastal region. Artumas Group Inc., the concessionaire, predicts that the find at Mnazi Bay will yield at least 250 bcf - and possibly up to 4 trillion cubic feet - over its lifetime. According to Salvador Ntomola, the Country Manager, Artumas had planned for the past three years to build a 300 megawatt power plant that would feed power directly into the national grid. The sticking point has been lengthy discussions with the GOT, led by Tanseco, over pricing structures and ownership of the necessary, but very expensive, transmission lines. Given the long delays, Artumas's board recently decided not to release any further funding until the Tanzanian office submits a GOT-approved plan of action. Ntomola wants this project to happen, but without the GOT on board it appears unlikely. Ntomola's new focus is on exporting the gas to Kenya through the port at Mombasa, either using ships capable of holding compressed gas or by extending the existing Songo Songo-Dar pipeline to Mnazi Bay and Mombasa. This proposal, which would require increasing the size of the

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existing pipeline, would need GOT action that to date has been limited at best.

Petroleum unlikely, but highly political

16. (SBU) Possible petroleum discoveries, especially offshore near Zanzibar, are the big rumors in the industry. Some local representatives for the smaller oil companies, such as Paddy Hoon of Heritage Oil, talk up the possibility of significant finds. Comparing Tanzania's offshore capacity to that of Nigeria, Hoon has tried to convince all who will listen that the big strike is only one investment away. However, TPDC's Halfani believes there is no oil to be found near the islands. Even if oil is found, he is deeply pessimistic that production would occur in the medium term.

17. (U) Despite the lack of progress on oil exploration, and the real possibility that exploration will not expose viable fields, the potential for oil is at the center of a political debate between Zanzibar and the mainland. Most Zanzibaris see themselves as an independent nation in free association with the mainland, forming the Union of Tanzania (ref B). The issue of gaining exclusive control over any lucrative resources is a hot button for all Zanzibari politicians. During the April 2009 session of Zanzibar's unicameral "House of Representatives," delegates from both parties unanimously adopted a resolution tabled by ruling CCM-Zanzibar stating that the laws establishing TPDC and oil exploration activities in the country were not ratified by Zanzibar's Parliament, so under the articles of the Union, TPDC's activities were not recognized in Zanzibar. The resolution reiterated the view that the 1968 agreement on revenue-sharing between Zanzibar and the Union government did not apply to energy and asserted that Zanzibar's share from the mainland was too low. It recommended that Zanzibar form its own TPDC equivalent and that any exploration in Economic Exclusive Zones (EEZ) should be carried out jointly. Any coordination would be handled through the national Vice President's Committee for Union issues, but the resolution stressed that energy, oil and gas as they existed in Zanzibar and its waters were not Union matters.

18. (SBU) President Kikwete intervened on April 29, accurately dismissing the debate as hypothetical. Indeed, David Reading, a UK consultant hired to advise both sides on how to share resources,

pointed out in a press interview during the Zanzibar parliamentary debate that there were "slim chances" that oil or gas was commercially available in either Unguja or Pemba, the main islands of Zanzibar. He said the area was costly to explore and that most international companies given access to the area had opted out. In our opinion, the main effect of the dispute is to discourage investors from pursuing exploration activities, thereby reducing the possibility that oil revenues will exist to be divided.

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